

Message Text

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TO SECSTATE WASHDC PRIORITY 1021

C O N F I D E N T I A L LISBON 4951

E.O. 11652: GDS

TAGS: PFOR PO

SUBJ: MCCLOSKEY MEETING NOVEMBER 9 WITH FINANCE MINISTER

LOPES AND ECONOMIC MINISTER VILAR

1. AMB MCCLOSKEY, ACCOMPANIED BY IBERIAN DIRECTOR LUKENS, SPECIAL ASSISTANT PEZZULLO AND ECON COUNSELOR WHITE, CALLED ON FINMIN SILVA LOPES AND ECONMIN RUI VILAR BEFORE LEAVING LISBON NOV 9.

2. IN CALL ON LOPES, MCCLOSKEY EXPLAINED PURPOSE OF TECHNICAL TALKS TEAM AND THAT LUKENS WOULD REMAIN IN LISBON TO HEAD IT. LOPES SAID HE WOULD OFFER EVERY FACILITY TO TEAM AND EXPECTED THAT HE WOULD SET UP WORKING GROUP TO CORRDINATE GOP INPUT AND HELP WITH ESTABLISHMENT OF PRIORITIES.

3. IN REPLY TO MCCLOSKEY'S QUERY ABOUT AID TO PORTUGAL FROM OTHER SOURCES, LOPES REPORTED ON WORLD BANK MISSION WHICH HAD JUST LEFT AND EXPRESSED HOPE THAT MAJOR ALVES AND SECSTATE FOR PLANNING CONSTANCIO WOULD RETURN FROM GERMANY AND THE NETHERLANDS WITH SOME OFFERS OF HELP. LOPES SAID HE DID NOT KNOW WHAT MIGHT COME OF SOARES' VISIT TO LIBYA BUT GUESSED IT MIGHT INVOLVE LOW-INTEREST LOAN.

4. IN GENERAL DISCUSSION OF ECONOMY, LOPES SAID FOREIGN EXCHANGE RESERVES WHICH WERE \$2.8 BILLION AT BEGINNING OF 1974 HAD

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DROPPED BY \$500 MILLION. VALUE OF IMPORTS HAD JUMPED 52 PERCENT

AND EXPORTS 29 PERCENT IN VALUE OVER FIRST EIGHT MONTHS OF 1974 COMPARED TO SAME PERIOD LAST YEAR, BUT MOST OF THIS WAS INFLATION-RELATED, ESPECIALLY PETROLEUM IMPORTS. HE HOPED THAT SOME INCREASED TRADE WOULD DEVELOP WITHIN EEC, OR THROUGH UPDATED EEC-EFTA AGREEMENT.

5. IN REPLY TO QUESTION ABOUT PRIVATE INVESTMENT, LOPES ADMITTED THAT SITUATION HAD NOT IMPROVED AND THAT PEOPLE WERE STILL HOARDING MONEY IN MATTRESSES. HE DID NOT FEEL THAT DEPARTURE OF SOME RICH FAMILIES WOULD AFFECT ECONOMY PARTICULARLY, THOUGH NOTED THAT FLIGHT OF CAPITAL WOULD OBVIOUSLY REDUCE DOMESTIC INVESTMENTS. HE SAID INFLATIONARY PRESSURE FROM OUTSIDE (IMPORTS OF PETROLEUM, SUGAR, CEREALS AND PHOSPHATES UP 500 PERCENT FROM PREVIOUS YEAR) WERE CAUSE OF PORTUGAL'S PROBLEMS MORE THAN INCREASED INTERNAL DEMAND OR WAGE BOOSTS.

6. IN CALL ON ECONMIN RUI VILAR, MCCLOSKEY AGAIN EXPLAINED MISSION OF TECHNICAL TEAM AND GOT VILAR'S AGREEMENT TO COOPERATE. CONVERSATION COVERED MUCH OF SAME GROUND AS THAT WITH LOPES, REFERRING TO INFLATION, UNEMPLOYMENT, BALANCE OF PAYMENTS, AND LACK OF NEW INVESTMENT. WHEN MCCLOSKEY ASKED ABOUT HELP FROM OTHER SOURCES VILAR REPLIED THAT THE GREATEST NEED WAS FOR FINANCIAL AID AND HELP WITH THE SUBSIDIES NOW NEEDED ON MEAT, SUGAR, AND BREAD. HE DID NOT SPELL OUT WHERE GOP EXPECTED TO GET OTHER HELP. TURNING TO TOURISM, VILAR SAID THE GOP HOPED TO FILL UP THE HOTELS IN THE SLOW SEASON WITH GROUPS FROM LOWER AND MIDDLE-CLASS BACKGROUNDS FROM NORDIC COUNTRIES AND EASTERN EUROPE.

7. VILAR THEN SPOKE AT SOME LENGTH ABOUT PROBLEM OF RETURNING COLONISTS AND SOLDIERS AND THE NEED TO PROVIDE JOBS FOR THEM WITH LABOR-INTENSIVE PROJECTS. HE SAID THE LABOR MARKET WAS BEING SATURATED BY THE FACT THAT EMIGRATION HAD DECREASED BY 30 PERCENT.

8. ON BALANCE, BOTH OFFICIALS WERE QUITE GLOOMY AND GAVE THE IMPRESSION OF LOOKING EVERYWHERE POSSIBLE FOR OUTSIDE HELP. BOTH SHOWED INTEREST IN THE TECHNICAL TEAM TALKS AND ASKED TO BE KEPT INFORMED OF THE TEAM'S PROGRESS.
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